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TAGS: [AORC](#) [PREL](#) [KNNP](#) [IAEA](#) [UN](#)
SUBJECT: U.S. STIRS UP IAEA BUDGET TALKS, LEAVES THE WAY
OPEN FOR AN INCREASE

REF: A. STATE 41671
[1](#)B. UNVIE 182

Classified By: Ambassador Gregory L. Schulte for reasons 1.4 b/d

[1](#)1. (SBU) Summary: (This is a guidance request. Please see paragraphs 15 - 17.) The U.S. delegation achieved its primary goal during budget negotiations at the IAEA this week to leave the door open to a "meaningful, real increase." While the U.S. was alone in its strong appeal for a budget increase, neither the EU nor the G-77 managed to contradict the position as a bloc. An ad hoc and perhaps transitory coalition of budget hawks, the "Gang of Seven" (Germany, France, the UK, Mexico, Saudi Arabia, Switzerland, Canada), called on the Secretariat to "revise the budget on the basis of zero growth" but were stymied by the Board Chair's activism, which we encouraged, on behalf of a real increase. The G-77 also called for a revised budget, but left room for increases in technical cooperation and safeguards. The G-77 rejected regular budget funding for nuclear security activities, describing them as "not a Statutory function of the Agency." The budget negotiations were testy at times and left the U.S. largely isolated from the Europeans and other traditional allies. This uncomfortable isolation, however, at least leaves the U.S. free to pursue negotiations with the G-77 in favor of a budget increase. In the lead-up to the June 15-19 Board of Governors meeting, Mission hopes to soften the stance of the budget hawks while encouraging the G-77 to recognize that U.S. priorities also serve their own interests. Continued support from the Washington inter-agency process and from posts in G-8 and Board capitals is essential to this effort.

[1](#)2. (SBU) Mission requests guidance from Washington on 1) a detailed budget position, including an overall goal for the increase and range of budget numbers for each U.S. priority; 2) demarche instructions for Board capitals, particularly France, the UK, Germany, Mexico, Saudi Arabia, Switzerland, Canada, Japan, Egypt, Brazil, India, Russia and China as well as for non-Board members Italy (as G8 president) and the Czech Republic (as EU President), requesting support for a significant budget increase, including nuclear security activities; 3) prospects for intensifying U.S. efforts at upcoming meetings of G-8 nonproliferation directors and other venues in order to develop a G-8 consensus around a phased

budget increase. Washington reinforcement of Mission's efforts left the way open for a budget increase, but we now need to turn the disorganized opposition into a surge of organized support. End Summary.

¶3. (SBU) After two days of negotiations in the IAEA's Program and Budget Committee (PBC) April 27-28, the U.S. delegation achieved its primary goal of leaving the door open to a "meaningful, real increase" in the IAEA's 2010-2011 Regular Budget. Ambassador Schulte's opening statement recalled elements from President Obama's April 5 speech in Prague, focusing on the role the IAEA should play in international inspections, securing vulnerable nuclear material and providing fuel assurances to countries interested in developing nuclear power. Ambassador called for a "meaningful, real increase in the regular budget and asked that Member States refrain from rejecting outright the proposed budget increase and instead remain flexible in their approach to budget negotiations.

¶4. (SBU) No other delegation supported the U.S. position. On the other hand, no other bloc - neither the EU nor the G-77 - put forward an outright contradiction. Only the ad hoc "Gang of Seven," a coalition stitched together by Germany during the first day of deliberations, managed to deliver a harsh statement calling for ZRG and a wholesale revision of the budget proposal (below). Individual Member States also called for ZRG, but without the support of their respective blocs. Vice Chair Taous Feroukhi gave a healthy boost to the U.S. position by closing the PBC with the comment, "Let us recognize that the Agency needs the resources to do its work and fulfill its mission."

The European Union

¶5. (C) As expected, the EU statement asked the Secretariat to "elaborate more restrained alternatives" (reftel). The EU statement was much softer than the harsh, "zero growth" language preferred by European budget hawks Germany, France and the UK. It came with a price tag, however: We were told the Finns - along with Romania and Austria - resisted pressure from the larger members and Czech EU president in what was apparently a bruising process. According to the Romanian delegate, Finland later skipped the final drafting session of the PBC report in order to avoid any more EU battles.

A "Gang of Seven" - but not for long

¶6. (C) During the first day of PBC deliberations, rumors began filtering to the U.S. delegation that certain hard-line European countries were seeking support for a "joint statement" calling for a revised budget proposal based on zero real growth (ZRG). The European hardliners had been frustrated by their failure to achieve an EU or Geneva Group consensus based on ZRG. The statement describes the budget proposal as "not acceptable" and asks for a new budget proposal that is "realistic, disciplined and in line with the requirements dictated by the current financial crisis." The statement concludes by asking the Secretariat to "submit without delay a new draft budget...geared toward the goal of zero growth."

¶7. (C) The Germans were particularly active on the floor of the PBC, and it was likely their leadership that led to the joint statement. For its part, France was particularly harsh in the drafting session of the PBC report, working hard to minimize language supportive of an increase and portraying the U.S. as an isolated contrarian. Mexico's national statement was among the most critical of all Member States. Mexico's decision to join the Gang of Seven appears to contradict Mexico's reported agreement at the Under Secretary level to support a "range of options."

¶8. (C) Australia supports an even more severe position - Zero Nominal Growth - but did not join the Gang of Seven given instructions not to play a leadership role or disrupt consensus. Saudi Arabia initially associated itself with the Gang, but later backtracked on the position. A U.S. intervention with Japan avoided their involvement with the Gang of Seven. We anticipate Canada is the next most likely state we can peel off.

The G-77

¶9. (C) The G-77 role in the PBC was relatively more subdued than the OECD. G-77 statements called for increases in their priority areas while signaling openness to some OECD priorities, most notably, additional safeguards funding to include the Safeguards Analytical Laboratory (SAL). There was also strong resistance to additional regular budget funding for the Nuclear Security program (reftel). G-77 stubbornness on this point (a U.S. priority) appears to be gaining momentum and was a main target during the drafting session of the PBC report. (Comment: A South African delegate commented that the G-77's hard line on nuclear security was intended to ensure that future technical cooperation budgets increase in line with any other expansion, rather than going through the laborious and "humiliating" process of negotiating a TC target every two years. End Comment.)

¶10. (C) In an intervention into Member State deliberations rare in its detail and duration, Deputy Director General David Waller debunked the G-77 assertion that the budget proposal was "discriminatory" in raising resources for

Nuclear Security. While the Statute did not address nuclear security by name, he noted the topic appropriately fell under the Agency's purview as part of safety activities and its Article II objective "to accelerate and enlarge the contribution of atomic energy to peace, health and prosperity." A U.S. proposal to include Waller's comments in the final PBC report was flatly rejected by Brazil, Egypt and Iran.

Potential Allies - Finland, Norway, Russia, Japan, India, China, New Zealand

¶11. (C) Finland was the only country other than the U.S. to offer direct support for the budget proposal. Finland indicated a willingness to consider "reasonable and necessary" increases and take the Secretariat's proposed budget as the basis for negotiations. Norway is quietly inclined to support Finland's approach. Russia also avoided a hard line position and signaled privately its openness to conservative increases, while explaining privately that they did not have detailed instructions. Russia prioritized funding for the Safeguards Analytical Laboratory (a U.S. priority). Overall, the Russian position was more flexible toward a possible increase than the vast majority of other Member States.

¶12. (C) Japan responded positively to U.S. interventions and made a last-minute change to its statement that hedged its request for a revised budget proposal. During the drafting session of the PBC report, Japan made only technical comments, staying away from the aggressive push by European budget hawks to delete pro-budget language. China signaled privately that it was flexible on the budget, but not keen on taking a leadership role. India is another potential behind-the-scenes ally to a budget increase. The New Zealand Ambassador indicated privately that there was room for flexibility, but underlined that increases should be phased and back-loaded in recognition of the current financial crises.

A Boost from the Board Chairs

¶13. (C) Board Chair Taous Feroukhi has become a clear ally in favor of an increase. When the German Ambassador intervened in reply to her closing summary, Feroukhi rebutted his renewed call for an entirely new budget, declaring that it was preferable to "arrive at a reasonable increase to the budget" and that she would "leave it to the Vice Chair" (Romanian Ambassador Feruta). Privately, Feroukhi complained about the proposed continuation of ZRG, saying, "look where that has gotten us." Msnoff witnessed Feroukhi upbraiding the Saudi counselor for having associated with the Gang of Seven statement, which contradicted the position of the G-77, of which Saudi Arabia remains a member. (The scolding was effective; the Saudi later told the U.S. delegation that his government would no longer stand in the way of a "reasonable" budget increase, but wanted to know from us how much that might be.)

¶14. (C) The Romanian delegation is privately supportive of the U.S. position and has worked effectively behind the scenes to disrupt EU consensus against an increase. Publicly, however, Romania keeps mum in the interest of appearing neutral in its role as budget negotiator. Following the PBC, the Romanian Mission consulted with the U.S. on the best way to move forward with budget consultations. Romanian delegate Dan Necalaescu expressed frustration that Member States had yet to detail their positions (other than ZRG hardliners who by nature of their position had little constructive to offer). Necalaescu scolded the U.S. for losing ground by waiting until the PBC to present a position. Necalaescu then urged UNVIE officers to make up time by submitting concrete proposals to Romanian Vice Chair Feruta that could be used as a basis for negotiation.

Numbers Needed

¶15. (C) The U.S. achieved its PBC goal of leaving the way open to a significant increase in the IAEA budget. Unfortunately, the Europeans' inability to raise an organized resistance should not be taken as a sign that they in any way support it. E3 positions in favor of zero growth are cemented and unlikely to change without a high-level lobbying effort. At the same time, the G-77 has reacted to the obvious deterioration in unity among EU and Geneva Group members with a certain satisfaction (and even glee). While it is not entirely clear why Nuclear Security has become a target of G-77 countries, they aptly perceive that OECD disarray works to their advantage. Unfortunately, the sense of having the upper hand may encourage the G-77 to harden its stance against Nuclear Security and expand its demands for technical cooperation.

¶16. (C) Per Chairwoman Feroukhi's response to a Canadian question during the adoption of the PBC report April 29, Romanian Ambassador Feruta will soon begin his attempts to hammer out a consensus on 1) the overall percentage increase, 2) potential for phasing funding increases over multiple biennia, and 3) specific priority areas to receive proportionally greater regular budget resources. He is supported by Board Chair Feroukhi, who clearly wants a consensus from Member States on a real increase by the time of the June 15 Board of Governors meeting. The impromptu Gang of Seven and other budget hawks will be hampered by their nay-saying approach, which denies them a bargaining chip with the G-77. The U.S. is therefore in a prime position to step into the void and lead the debate. The sooner we are able to present Ambassador Feruta (privately) a target budget figure and bands of acceptable price tags for each U.S. priority, the sooner we can get to work bringing around the G-77. We would also use this target privately with the IAEA leadership to encourage their further work in elaborating a compromise budget.

Request for Guidance

¶17. (C) Mission requests guidance from Washington on: 1) A more detailed budget position for use in private conversations with Board Vice Chair Feruta. The position should include a set of parameters identifying target funding levels for each of the Major Programs, in conformity with an explicit, overall percentage increase; 2) Instructions to posts in key capitals asking them to relinquish their ZRG position and support a significant increase in the IAEA budget. These instructions should go to posts in Germany, the UK, France, Mexico, Switzerland, Canada, Russia and New Zealand. Mission also requests instructions to G-77 heavyweights Egypt, Brazil, India, Saudi Arabia, South Africa and China asking for a supportive stance toward Nuclear Security as part of a broader increase that will include proportional increases for technical cooperation; 3) A lobbying campaign at upcoming meetings of the G-8 nonproliferation directors and other venues in order to develop G-8 consensus around a significant budget increase. These efforts would further counteract the European hard-liners and play off the willingness of Russia to entertain an increase. Italian Chair of the Nonproliferation Directors Group (NPDG), Fillipo Formica, is already aware of the U.S. desire to include the issue as an agenda item for the next meeting June 5. Mission stands ready to contribute to talking points on all three topics, and will produce a Nuclear Security "fact sheet" as an aid to negotiating with G-77 Members.

¶18. (U) Note: Several Member States have complained about the U.S. use of the term "meaningful" budget increase and prefer the term "significant." (In their eyes, significant is a less ambiguous term that translates more meaningfully into other languages.)

SCHULTE